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## Australia

## Dairy and Products

## Annual

## 2004

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**Report Highlights:**

The Australian dairy industry faces an improved outlook in 2004/05 compared with the previous year, although milk production is expected to remain below pre-drought levels. A one percent increase is forecast for Australian fluid milk production in 2004/05. Production levels for butter and milk powders are forecast to remain unchanged, while cheese production is forecast to increase by more than two percent. Exports of cheese in 2004/05 are forecast to increase more-or-less in line with expected production, while exports of other dairy products are forecast unchanged from a year earlier.

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Includes PSD Changes: Yes  
Includes Trade Matrix: Yes  
Annual Report  
Canberra [AS1]  
[AS]

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## SECTION ONE: SITUATION AND OUTLOOK

### Executive Summary

Australian fluid milk production is forecast to increase approximately one percent in 2004/05 (July-June). Cheese production is forecast to increase by over two percent, while butter and milk powder production are expected to remain essentially unchanged. Exports of cheese are forecast to increase by more than two percent in 2004/05, in line with the expected increase in production; while exports of other major dairy commodities are forecast to remain essentially unchanged from a year earlier.

Post has assumed average weather conditions for the remainder of the 2004/05 season in formulating the 2004/05 forecasts. At time of writing this report, the principal dairy regions have recently received timely, heavy rainfall. Furthermore, irrigation water supply levels have improved markedly, although not yet reaching pre-drought levels. Winter grain and fodder crops have also benefited from the recent rainfall, although total grain production for 2004/05 is expected to be sharply lower than in 2003/04.

The Australian dairy industry is expected to continue recovering from previous drought conditions. However, feed grain supplies and irrigation water reserves have not yet reached pre-drought levels. Despite a return to more normal weather conditions and the subsequent improvement in pasture conditions, milk production in 2004/05 is not expected to reach the levels experienced prior to the drought.

Estimated fluid milk production for 2003/04 has been revised downwards slightly. A severe drought, which began in 2002-03, negatively impacted productivity to a greater extent than previously estimated. However, the dairy industry's greater reliance on feed grain resulted in the highest average milk fat yield since 1999/2000 and the highest milk protein levels over the past decade, according to industry sources. Post notes that cheese, butter and milk powder production have been revised upwards for 2003/04.

Dairy farmers in Australia have not benefited fully from improved world dairy prices. A strong Australian dollar and rising production costs associated with the drought have resulted in financial returns remaining at relatively low levels despite high world prices. Relative price trends, however, have favored cheese production over other dairy commodities.

The most recent industry survey data indicate that climatic conditions for Australian dairy farmers are now improving, with two-thirds of producers claiming they have now recovered to pre-drought production levels. Post forecasts milk production to increase at slightly over one percent in 2004/05, while industry sources expect production to rise at between zero and two percent.

The Thailand-Australia and Australia-U.S. Free Trade Agreements (FTA) are to be implemented in January 2005. Both agreements provide Australia with increased market access opportunities for dairy products.

The Australian Dairy Industry continues to adjust to regulatory reforms implemented in July 2000. To date, this remains the most expensive agricultural reform package of modern times valued at \$A1.78 billion. Under this program, adjustment support is provided for structural adjustment, exit assistance and supplementary assistance measures. The Australian dairy industry now purports to be the only deregulated dairy industry in the world.

## SECTION TWO: STATISTICAL TABLES

| PSD Table<br>Dairy, Milk, Fluid |                           |                           |                           |                           |                           |                           |                |
|---------------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|----------------|
|                                 | 2003                      | Revised                   | 2004                      | Estimate                  | 2005                      | Forecast                  | UOM            |
|                                 | USDA<br>Official<br>[Old] | Post<br>Estimate<br>[New] | USDA<br>Official<br>[Old] | Post<br>Estimate<br>[New] | USDA<br>Official<br>[Old] | Post<br>Estimate<br>[New] |                |
| Market Year Begin               |                           | 07/2002                   |                           | 07/2003                   |                           | 07/2004                   | MM/YYYY        |
| Cows In Milk                    | 2298                      | 2050                      | 2298                      | 2028                      | 0                         | 2042                      | (1000<br>HEAD) |
| Cows Milk Production            | 10636                     | 10636                     | 10500                     | 10377                     | 0                         | 10500                     | (1000 MT)      |
| Other Milk Production           | 0                         | 0                         | 0                         | 0                         | 0                         | 0                         | (1000 MT)      |
| TOTAL Production                | 10636                     | 10636                     | 10500                     | 10377                     | 0                         | 10500                     | (1000 MT)      |
| Intra EC Imports                | 0                         | 0                         | 0                         | 0                         | 0                         | 0                         | (1000 MT)      |
| Total Imports                   | 6                         | 6                         | 12                        | 2                         | 0                         | 2                         | (1000 MT)      |
| TOTAL Imports                   | 6                         | 6                         | 12                        | 2                         | 0                         | 2                         | (1000 MT)      |
| TOTAL SUPPLY                    | 10642                     | 10642                     | 10512                     | 10379                     | 0                         | 10502                     | (1000 MT)      |
| Intra EC Exports                | 0                         | 0                         | 0                         | 0                         | 0                         | 0                         | (1000 MT)      |
| Total Exports                   | 87                        | 88                        | 83                        | 85                        | 0                         | 85                        | (1000 MT)      |
| TOTAL Exports                   | 87                        | 88                        | 83                        | 85                        | 0                         | 85                        | (1000 MT)      |
| Fluid Use Dom. Consum.          | 1982                      | 1982                      | 2000                      | 2019                      | 0                         | 2050                      | (1000 MT)      |
| Factory Use Consum.             | 8573                      | 8572                      | 8429                      | 8275                      | 0                         | 8367                      | (1000 MT)      |
| Feed Use Dom. Consum.           | 0                         | 0                         | 0                         | 0                         | 0                         |                           | (1000 MT)      |
| TOTAL Dom. Consumption          | 10555                     | 10554                     | 10429                     | 10294                     | 0                         | 10417                     | (1000 MT)      |
| TOTAL DISTRIBUTION              | 10642                     | 10642                     | 10512                     | 10379                     | 0                         | 10502                     | (1000 MT)      |
| Calendar Yr. Imp. from U.S.     | 0                         | 0                         | 0                         | 0                         | 0                         | 0                         | (1000 MT)      |
| Calendar Yr. Exp. to U.S.       | 0                         | 0                         | 0                         | 0                         | 0                         | 0                         | (1000 MT)      |

| Import Trade Matrix<br>Dairy, Milk, Fluid |             |                |             |
|---|-------------|----------------|-------------|
| Time Period                               | Jan - Dec   | Units:         | MT          |
| <b>Imports for:</b>                       | <b>2002</b> |                | <b>2003</b> |
| U.S.                                      | 0           | U.S.           | 0           |
| <b>Others</b>                             |             | <b>Others</b>  |             |
| New Zealand                               | 2663        | New Zealand    | 4886        |
|   |             | Singapore      | 20          |
|   |             | Czech Republic | 7           |
| <b>Total for Others</b>                   | <b>2663</b> |                | <b>4913</b> |
| Others not Listed                         | 20          |                | 58          |
| <b>Grand Total</b>                        | <b>2683</b> |                | <b>4971</b> |

| Export Trade Matrix<br>Dairy, Milk, Fluid |              |                  |              |
|---|--------------|------------------|--------------|
| Time Period                               | Jan - Dec    | Units:           | MT           |
| <b>Exports for:</b>                       | <b>2002</b>  |                  | <b>2003</b>  |
| U.S.                                      | 53           | U.S.             | 4            |
| <b>Others</b>                             |              | <b>Others</b>    |              |
| Singapore                                 | 22050        | Singapore        | 23226        |
| Hong Kong                                 | 18330        | Hong Kong        | 15963        |
| Philippines                               | 10589        | Philippines      | 6111         |
| American Samoa                            | 4140         | Malaysia         | 4045         |
| Malaysia                                  | 3775         | American Samoa   | 3627         |
| Papua New Guinea                          | 2890         | Taiwan           | 3584         |
| China                                     | 2435         | New Zealand      | 3042         |
| Vietnam                                   | 2365         | Papua New Guinea | 2394         |
| Taiwan                                    | 1913         | Vietnam          | 2350         |
| Indonesia                                 | 1802         | Indonesia        | 2092         |
| <b>Total for Others</b>                   | <b>70290</b> |                  | <b>66433</b> |
| Others not Listed                         | 7921         |                  | 9365         |
| <b>Grand Total</b>                        | <b>78264</b> |                  | <b>75802</b> |

| PSD Table<br>Dairy, Butter  |                           |                           |                           |                           |                           |                           |           |
|-----------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|-----------|
|                             | 2003                      | Revised                   | 2004                      | Estimate                  | 2005                      | Forecast                  | UOM       |
|                             | USDA<br>Official<br>[Old] | Post<br>Estimate<br>[New] | USDA<br>Official<br>[Old] | Post<br>Estimate<br>[New] | USDA<br>Official<br>[Old] | Post<br>Estimate<br>[New] |           |
| Market Year Begin           |                           | 07/2002                   |                           | 07/2003                   |                           | 07/2004                   | MM/YYYY   |
| Beginning Stocks            | 2                         | 2                         | 2                         | 2                         | 2                         | 2                         | (1000 MT) |
| Production                  | 148                       | 163                       | 130                       | 132                       | 0                         | 133                       | (1000 MT) |
| Intra EC Imports            | 0                         | 0                         | 0                         | 0                         | 0                         | 0                         | (1000 MT) |
| Total Imports               | 7                         | 7                         | 10                        | 9                         | 0                         | 9                         | (1000 MT) |
| TOTAL Imports               | 7                         | 7                         | 10                        | 9                         | 0                         | 9                         | (1000 MT) |
| TOTAL SUPPLY                | 157                       | 172                       | 142                       | 143                       | 2                         | 144                       | (1000 MT) |
| Intra EC Exports            | 0                         | 0                         | 0                         | 0                         | 0                         | 0                         | (1000 MT) |
| Total Exports               | 100                       | 110                       | 89                        | 84                        | 0                         | 85                        | (1000 MT) |
| TOTAL Exports               | 100                       | 110                       | 89                        | 84                        | 0                         | 85                        | (1000 MT) |
| Domestic Consumption        | 55                        | 60                        | 51                        | 57                        | 0                         | 57                        | (1000 MT) |
| TOTAL Use                   | 155                       | 170                       | 140                       | 141                       | 0                         | 142                       | (1000 MT) |
| Ending Stocks               | 2                         | 2                         | 2                         | 2                         | 0                         | 2                         | (1000 MT) |
| TOTAL DISTRIBUTION          | 157                       | 172                       | 142                       | 143                       | 0                         | 144                       | (1000 MT) |
| Calendar Yr. Imp. from U.S. | 0                         | 0                         | 0                         | 0                         | 0                         | 0                         | (1000 MT) |
| Calendar Yr. Exp. to U.S.   | 5                         | 6                         | 5                         | 2                         | 0                         | 2                         | (1000 MT) |

| Import Trade Matrix<br>Dairy, Butter |             |               |             |
|--------------------------------------|-------------|---------------|-------------|
| Time Period                          | Jan - Dec   | Units:        | MT          |
| Imports for:                         | 2002        |               | 2003        |
| U.S.                                 | 75          | U.S.          | 48          |
| <b>Others</b>                        |             | <b>Others</b> |             |
| New Zealand                          | 5908        | New Zealand   | 8179        |
| Switzerland                          | 20          | Denmark       | 24          |
| Denmark                              | 17          | France        | 16          |
| France                               | 11          | India         | 2           |
| India                                | 3           | Singapore     | 2           |
| Lebanon                              | 1           | Netherlands   | 2           |
|                                      |             | Philippines   | 1           |
|                                      |             | Egypt         | 1           |
|                                      |             | Vietnam       | 1           |
| <b>Total for Others</b>              | <b>5960</b> |               | <b>8228</b> |
| Others not Listed                    | 74          |               | 81          |
| <b>Grand Total</b>                   | <b>6109</b> |               | <b>8357</b> |

| Export Trade Matrix<br>Dairy, Butter |               |               |              |
|--------------------------------------|---------------|---------------|--------------|
| Time Period                          | Jan - Dec     | Units:        | MT           |
| Exports for:                         | 2002          |               | 2003         |
| U.S.                                 | 6139          | U.S.          | 2063         |
| <b>Others</b>                        |               | <b>Others</b> |              |
| Egypt                                | 13693         | Singapore     | 6269         |
| Thailand                             | 7118          | Korea South   | 5957         |
| Singapore                            | 6856          | Thailand      | 4961         |
| Saudi Arabia                         | 6611          | Russia        | 4783         |
| Korea South                          | 5800          | Egypt         | 4698         |
| Mexico                               | 5306          | Saudi Arabia  | 4424         |
| Malaysia                             | 4507          | Malaysia      | 4181         |
| Indonesia                            | 4349          | Mexico        | 3532         |
| Taiwan                               | 3604          | Hong Kong     | 3386         |
| United Arab Emirates                 | 3213          | Taiwan        | 3206         |
| <b>Total for Others</b>              | <b>61057</b>  |               | <b>45397</b> |
| Others not Listed                    | 44107         |               | 33324        |
| <b>Grand Total</b>                   | <b>111303</b> |               | <b>80784</b> |

| PSD Table<br>Dairy, Cheese  |                           |                           |                           |                           |                           |                           |           |
|-----------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|-----------|
|                             | 2003                      | Revised                   | 2004                      | Estimate                  | 2005                      | Forecast                  | UOM       |
|                             | USDA<br>Official<br>[Old] | Post<br>Estimate<br>[New] | USDA<br>Official<br>[Old] | Post<br>Estimate<br>[New] | USDA<br>Official<br>[Old] | Post<br>Estimate<br>[New] |           |
| Market Year Begin           |                           | 07/2002                   |                           | 07/2003                   |                           | 07/2004                   | MM/YYYY   |
| Beginning Stocks            | 73                        | 73                        | 47                        | 47                        | 44                        | 38                        | (1000 MT) |
| Production                  | 368                       | 368                       | 390                       | 391                       | 0                         | 400                       | (1000 MT) |
| Intra EC Imports            | 0                         | 0                         | 0                         | 0                         | 0                         | 0                         | (1000 MT) |
| Total Imports               | 51                        | 51                        | 49                        | 49                        | 0                         | 50                        | (1000 MT) |
| TOTAL Imports               | 51                        | 51                        | 49                        | 49                        | 0                         | 50                        | (1000 MT) |
| TOTAL SUPPLY                | 492                       | 492                       | 486                       | 487                       | 44                        | 488                       | (1000 MT) |
| Intra EC Exports            | 0                         | 0                         | 0                         | 0                         | 0                         | 0                         | (1000 MT) |
| Total Exports               | 208                       | 208                       | 208                       | 212                       | 0                         | 217                       | (1000 MT) |
| TOTAL Exports               | 208                       | 208                       | 208                       | 212                       | 0                         | 217                       | (1000 MT) |
| Human Dom. Consumption      | 237                       | 237                       | 234                       | 237                       | 0                         | 237                       | (1000 MT) |
| Other Use, Losses           | 0                         | 0                         | 0                         | 0                         | 0                         | 0                         | (1000 MT) |
| Total Dom. Consumption      | 237                       | 237                       | 234                       | 237                       | 0                         | 237                       | (1000 MT) |
| TOTAL Use                   | 445                       | 445                       | 442                       | 449                       | 0                         | 454                       | (1000 MT) |
| Ending Stocks               | 47                        | 47                        | 44                        | 38                        | 0                         | 34                        | (1000 MT) |
| TOTAL DISTRIBUTION          | 492                       | 492                       | 486                       | 487                       | 0                         | 488                       | (1000 MT) |
| Calendar Yr. Imp. from U.S. | 0                         | 0                         | 0                         | 0                         | 0                         | 0                         | (1000 MT) |
| Calendar Yr. Exp. to U.S.   | 9                         | 9                         | 9                         | 10                        | 0                         | 10                        | (1000 MT) |



| Import Trade Matrix<br>Dairy, Cheese |           |                |       |
|--------------------------------------|-----------|----------------|-------|
| Time Period                          | Jan - Dec | Units:         | MT    |
| Imports for:                         | 2002      |                | 2003  |
| U.S.                                 | 11        | U.S.           | 13    |
| Others                               |           | Others         |       |
| New Zealand                          | 36024     | New Zealand    | 35957 |
| Italy                                | 1902      | Denmark        | 1967  |
| Norway                               | 1470      | Italy          | 1773  |
| Denmark                              | 1399      | Norway         | 1569  |
| Greece                               | 1119      | Bulgaria       | 1362  |
| Bulgaria                             | 1045      | Greece         | 1093  |
| Netherlands                          | 957       | Netherlands    | 904   |
| France                               | 819       | France         | 816   |
| Germany                              | 460       | Germany        | 446   |
| United Kingdom                       | 155       | United Kingdom | 151   |
| Total for Others                     | 45350     |                | 46038 |
| Others not Listed                    | 572       |                | 1240  |
| Grand Total                          | 45933     |                | 47291 |

| Export Trade Matrix<br>Dairy, Cheese |           |              |        |
|--------------------------------------|-----------|--------------|--------|
| Time Period                          | Jan - Dec | Units:       | MT     |
| Exports for:                         | 2002      |              | 2003   |
| U.S.                                 | 9198      | U.S.         | 9740   |
| Others                               |           | Others       |        |
| Japan                                | 86194     | Japan        | 82697  |
| Saudi Arabia                         | 16241     | Netherlands  | 20434  |
| Netherlands                          | 14257     | Saudi Arabia | 15498  |
| Korea South                          | 13368     | Korea South  | 15381  |
| Indonesia                            | 6673      | Taiwan       | 5681   |
| Algeria                              | 5499      | Indonesia    | 4721   |
| Philippines                          | 4903      | Algeria      | 4665   |
| United Kingdom                       | 4183      | Philippines  | 4405   |
| Taiwan                               | 3697      | Hong Kong    | 3959   |
| Malta                                | 3636      | Malta        | 3684   |
| Total for Others                     | 158651    |              | 161125 |
| Others not Listed                    | 39111     |              | 38402  |
| Grand Total                          | 206960    |              | 209267 |

| PSD Table<br>Dairy, Milk, Nonfat Dry |                           |                           |                           |                           |                           |                           |           |
|--------------------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|-----------|
|                                      | 2003                      | Revised                   | 2004                      | Estimate                  | 2005                      | Forecast                  | UOM       |
|                                      | USDA<br>Official<br>[Old] | Post<br>Estimate<br>[New] | USDA<br>Official<br>[Old] | Post<br>Estimate<br>[New] | USDA<br>Official<br>[Old] | Post<br>Estimate<br>[New] |           |
| Market Year Begin                    |                           | 07/2002                   |                           | 07/2003                   |                           | 07/2004                   | MM/YYYY   |
| Beginning Stocks                     | 16                        | 16                        | 13                        | 13                        | 18                        | 8                         | (1000 MT) |
| Production                           | 209                       | 215                       | 178                       | 199                       | 0                         | 199                       | (1000 MT) |
| Intra EC Imports                     | 0                         | 0                         | 0                         | 0                         | 0                         | 0                         | (1000 MT) |
| Total Imports                        | 4                         | 4                         | 3                         | 2                         | 0                         | 2                         | (1000 MT) |
| TOTAL Imports                        | 4                         | 4                         | 3                         | 2                         | 0                         | 2                         | (1000 MT) |
| TOTAL SUPPLY                         | 229                       | 235                       | 194                       | 214                       | 18                        | 209                       | (1000 MT) |
| Intra EC Exports                     | 0                         | 0                         | 0                         | 0                         | 0                         | 0                         | (1000 MT) |
| Total Exports                        | 181                       | 187                       | 141                       | 171                       | 0                         | 170                       | (1000 MT) |
| TOTAL Exports                        | 181                       | 187                       | 141                       | 171                       | 0                         | 170                       | (1000 MT) |
| Human Dom. Consumption               | 35                        | 35                        | 35                        | 35                        | 0                         | 34                        | (1000 MT) |
| Other Use, Losses                    | 0                         | 0                         | 0                         | 0                         | 0                         | 0                         | (1000 MT) |
| Total Dom. Consumption               | 35                        | 35                        | 35                        | 35                        | 0                         | 34                        | (1000 MT) |
| TOTAL Use                            | 216                       | 222                       | 176                       | 206                       | 0                         | 204                       | (1000 MT) |
| Ending Stocks                        | 13                        | 13                        | 18                        | 8                         | 0                         | 5                         | (1000 MT) |
| TOTAL DISTRIBUTION                   | 229                       | 235                       | 194                       | 214                       | 0                         | 209                       | (1000 MT) |
| Calendar Yr. Imp. from U.S.          | 0                         | 0                         | 0                         | 0                         | 0                         | 0                         | (1000 MT) |
| Calendar Yr. Exp. to U.S.            | 1                         | 1                         | 0                         | 0                         | 0                         | 0                         | (1000 MT) |

| Import Trade Matrix<br>Dairy, Milk, Nonfat Dry |           |             |      |
|--|-----------|-------------|------|
| Time Period                                    | Jan - Dec | Units:      | MT   |
| Imports for:                                   | 2002      |             | 2003 |
| U.S.   | 0         | U.S.        | 1    |
| Others   |           | Others      |      |
| New Zealand                                    | 1230      | New Zealand | 3604 |
| France   | 19        | France      | 38   |
| Korea South                                    | 4         | Japan       | 18   |
| Taiwan   | 1         | Korea South | 8    |
|  |           | Taiwan      | 3    |
| Total for Others                               | 1254      |             | 3671 |
| Others not Listed                              | 114       |             | 456  |
| Grand Total                                    | 1368      |             | 4128 |

| Export Trade Matrix<br>Dairy, Milk, Nonfat Dry |               |               |               |
|--|---------------|---------------|---------------|
| Time Period                                    | Jan - Dec     | Units:        | MT            |
| <b>Exports for:</b>                            | <b>2002</b>   |               | <b>2003</b>   |
| U.S.   | 1215          | U.S.          | 53            |
| <b>Others</b>                                  |               | <b>Others</b> |               |
| Philippines                                    | 43858         | Malaysia      | 21060         |
| Malaysia                                       | 28844         | Philippines   | 16375         |
| Thailand                                       | 26674         | Singapore     | 13898         |
| Indonesia                                      | 20553         | Japan         | 11905         |
| Singapore                                      | 19496         | Indonesia     | 10870         |
| Japan  | 15193         | Taiwan        | 9329          |
| Mexico   | 12895         | China         | 6964          |
| China  | 12331         | Thailand      | 6926          |
| Taiwan   | 11539         | Saudi Arabia  | 5078          |
| Saudi Arabia                                   | 9953          | Mexico        | 4027          |
| <b>Total for Others</b>                        | <b>201336</b> |               | <b>106432</b> |
| Others not Listed                              | 39249         |               | 27509         |
| <b>Grand Total</b>                             | <b>241800</b> |               | <b>133994</b> |

| PSD Table<br>Dairy, Dry Whole Milk Powder |                           |                           |                           |                           |                           |                           |           |
|---|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|-----------|
|   | 2003                      | Revised                   | 2004                      | Estimate                  | 2005                      | Forecast                  | UOM       |
|   | USDA<br>Official<br>[Old] | Post<br>Estimate<br>[New] | USDA<br>Official<br>[Old] | Post<br>Estimate<br>[New] | USDA<br>Official<br>[Old] | Post<br>Estimate<br>[New] |           |
| Market Year Begin                         |                           | 07/2002                   |                           | 07/2003                   |                           | 07/2004                   | MM/YYYY   |
| Beginning Stocks                          | 15                        | 15                        | 26                        | 26                        | 26                        | 26                        | (1000 MT) |
| Production                                | 169                       | 170                       | 164                       | 187                       | 0                         | 187                       | (1000 MT) |
| Intra EC Imports                          | 0                         | 0                         | 0                         | 0                         | 0                         | 0                         | (1000 MT) |
| Total Imports                             | 10                        | 9                         | 4                         | 6                         | 0                         | 11                        | (1000 MT) |
| TOTAL Imports                             | 10                        | 9                         | 4                         | 6                         | 0                         | 11                        | (1000 MT) |
| TOTAL SUPPLY                              | 194                       | 194                       | 194                       | 219                       | 26                        | 224                       | (1000 MT) |
| Intra EC Exports                          | 0                         | 0                         | 0                         | 0                         | 0                         | 0                         | (1000 MT) |
| Total Exports                             | 142                       | 143                       | 140                       | 173                       | 0                         | 173                       | (1000 MT) |
| TOTAL Exports                             | 142                       | 143                       | 140                       | 173                       | 0                         | 173                       | (1000 MT) |
| Human Dom. Consumption                    | 26                        | 25                        | 28                        | 20                        | 0                         | 25                        | (1000 MT) |
| Other Use, Losses                         | 0                         | 0                         | 0                         | 0                         | 0                         | 0                         | (1000 MT) |
| Total Dom. Consumption                    | 26                        | 25                        | 28                        | 20                        | 0                         | 25                        | (1000 MT) |
| TOTAL Use                                 | 168                       | 168                       | 168                       | 193                       | 0                         | 198                       | (1000 MT) |
| Ending Stocks                             | 26                        | 26                        | 26                        | 26                        | 0                         | 26                        | (1000 MT) |
| TOTAL DISTRIBUTION                        | 194                       | 194                       | 194                       | 219                       | 0                         | 224                       | (1000 MT) |
| Calendar Yr. Imp. from U.S.               | 0                         | 0                         | 0                         | 0                         | 0                         | 0                         | (1000 MT) |
| Calendar Yr. Exp. to U.S.                 | 0                         | 0                         | 0                         | 0                         | 0                         | 0                         | (1000 MT) |

| Import Trade Matrix<br>Dairy, Dry Whole Milk Powder |             |               |              |
|---|-------------|---------------|--------------|
| Time Period   | Jan - Dec   | Units:        | MT           |
| Imports for:  | 2002        |               | 2003         |
| U.S.  | 6           | U.S.          | 8            |
| <b>Others</b>                                       |             | <b>Others</b> |              |
| New Zealand   | 5464        | New Zealand   | 9504         |
| Netherlands   | 224         | Vietnam       | 117          |
| Finland   | 126         | Netherlands   | 96           |
| France  | 78          | Singapore     | 88           |
| Japan   | 64          | France        | 60           |
| Canada  | 46          | Canada        | 46           |
| Indonesia   | 21          | Japan         | 37           |
| Singapore   | 19          | Finland       | 34           |
| Korea South   | 4           | Korea South   | 8            |
| Taiwan  | 3           | Taiwan        | 3            |
| <b>Total for Others</b>                             | <b>6049</b> |               | <b>9993</b>  |
| Others not Listed                                   | 207         |               | 896          |
| <b>Grand Total</b>                                  | <b>6262</b> |               | <b>10897</b> |

| Export Trade Matrix<br>Dairy, Dry Whole Milk Powder |               |               |               |
|---|---------------|---------------|---------------|
| Time Period   | Jan - Dec     | Units:        | MT            |
| Exports for:  | 2002          |               | 2003          |
| U.S.  | 57            | U.S.          | 80            |
| <b>Others</b>                                       |               | <b>Others</b> |               |
| China   | 22212         | Sri Lanka     | 12350         |
| Sri Lanka   | 19982         | Taiwan        | 11668         |
| Indonesia   | 19768         | Indonesia     | 9447          |
| Taiwan  | 13432         | Singapore     | 8872          |
| Singapore   | 11612         | Malaysia      | 8621          |
| Oman  | 9158          | Bangladesh    | 7562          |
| Malaysia  | 8893          | China         | 7524          |
| Bangladesh  | 8835          | Oman          | 7328          |
| Thailand  | 8382          | Mauritius     | 6034          |
| Nigeria   | 7304          | Vietnam       | 5653          |
| <b>Total for Others</b>                             | <b>129578</b> |               | <b>85059</b>  |
| Others not Listed                                   | 54377         |               | 31859         |
| <b>Grand Total</b>                                  | <b>184012</b> |               | <b>116998</b> |

## SECTION THREE: NARRATIVE ON SUPPLY AND DEMAND, POLICY & MARKETING

### General

Australia's dairy industry is the country's third largest agricultural industry, with a farm gate production value of A\$2.8 billion. Dairy is ranked fifth in terms agricultural export value, at A\$2.4 billion.

Australian dairy production relies on pasture production, despite a rapid trend towards grain supplementation. Subsequently, the industry remains vulnerable to high grain prices, reduced irrigation water availability and poor pasture conditions commonly associated with drought.

The number of dairy farms has fallen rather steadily over the past decade, from about 14,200 in 1994/95 to about 9,600 in 2003/04. However, increases in both cow numbers and per-cow yield has allowed milk production to rise from 8,206 million liters in 1994/95 to 10,075 million liters in 2003/04, according to statistics from Dairy Australia (DA). Industry sources expect milk production to continue rising out to 2006/07, although producers are expected to continue exiting the industry.

Cheese, butter and milk powder production account for the majority (78 percent) of total milk supply, while drinking milk accounts for most of the remainder (about 19 percent.) Fresh products such as yogurt, dairy deserts, custard and cream account for about three percent of total fluid milk supply, despite rapid growth in recent times.

### Weather Conditions

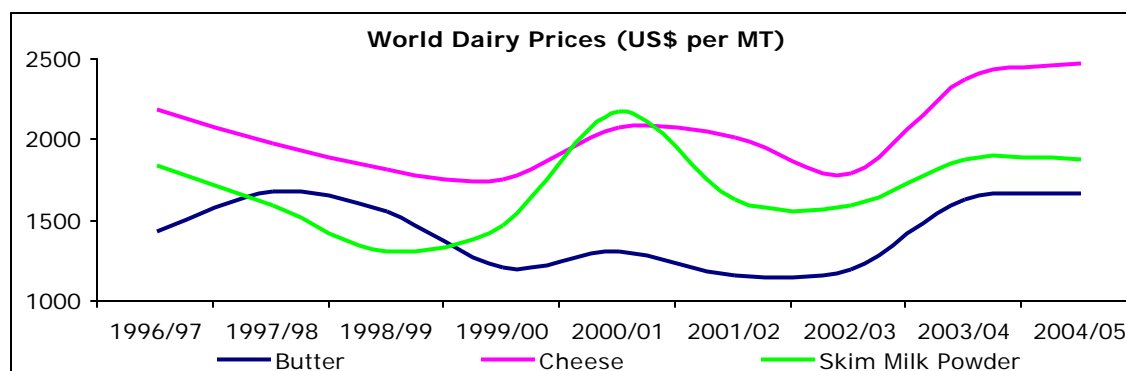
The month of November 2004 brought heavy rainfall to Victoria, where most of Australia's milk production is concentrated. Key producing regions in New South Wales also received heavy rainfall in November. The timing of this rain was crucial for the 2004/05 dairy season, as it helped to freshen pasture conditions ahead of the hotter and drier summer months. Prior to this rainfall, dry and hot conditions were suggesting another difficult 2004/05 season for the Australian dairy industry.

The 2003/04 dairy season was significantly impacted by drought conditions, that commenced in 2002. Despite an anticipated return to normal weather conditions (see GAIN Report #AS4016), continued below normal rainfall negatively impacted nearly all dairy regions in Australia. Government meteorological data show key dairy regions in all Australian states suffered from conditions ranging from "slightly below average" to the "lowest rainfall on record" during 2003/04.

The 2003/04 season brought record grain production to Australia, as timely rainfall and record grain prices dramatically increased winter grain production despite drier than average conditions. Although grain prices eased after the record 2003/04 harvest, prices remain at historical high levels.

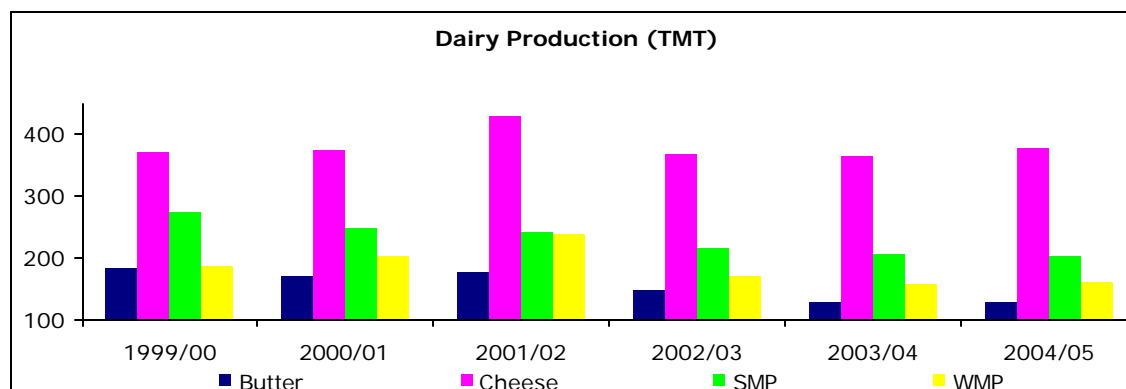
### Prices

World market prices for butter, cheese and skim milk powder (SMP) have risen significantly over the past year, increasing on the order of 36 percent, 33 percent and 17 percent, respectively. These commodity prices are forecast by the Australian Bureau of Agriculture and Resource Economics (ABARE) to increase again in 2004/05, albeit only slightly.



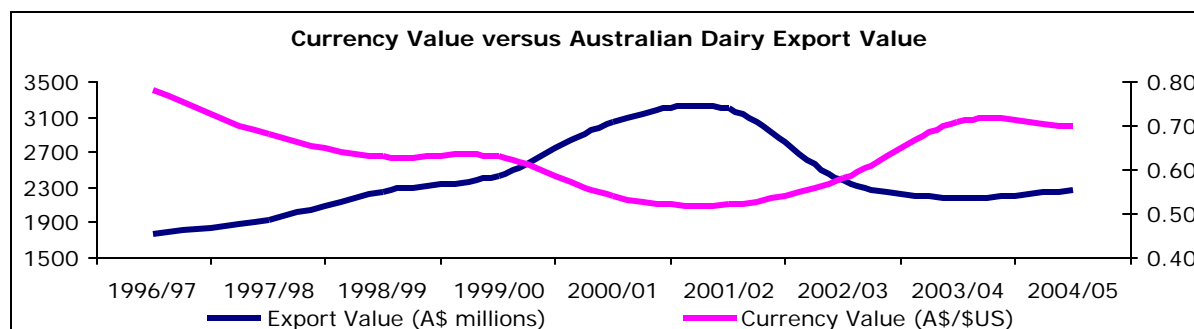
Source: ABARE annual data.

Increases in cheese consumption in key export markets helped cheese prices increase at a greater rate than other commodities over the past year, with this trend expected to continue over the next year. The relative strength of cheese prices, combined with the unique storage qualities of cheese, has seen cheese production increase in importance relative to other dairy commodities.



Source: ABARE annual data.

Traditionally, high world dairy product prices have a large and beneficial impact on the Australian dairy industry. However, a stronger Australian dollar has acted to constrain increases in world prices when converted to local currency. The Australian dollar has appreciated markedly against the currencies of major trading partners, particularly the United States, over the past two years – averaging US\$0.544 in 2002, and US\$0.65 in 2003, and peaking at US\$0.80 in early 2004. Currently, the Australian dollar is valued at about US\$0.78.



Source: ABARE annual data.

## Policy

Australia maintains Free Trade Agreements with New Zealand and Singapore, and has recently completed FTA negotiations with Thailand and the United States. Other FTAs are being pursued with ASEAN, China and other countries in the region.

Australia-U.S. FTA: Australia completed FTA negotiations with the United States in early 2004, with the agreement due to go into effect on January 1, 2005. The FTA provides for increased Australian dairy exports to the United States by expanding existing dairy quotas (TRQs), providing new dairy TRQs, and reducing in-quota tariffs to zero, versus the current tariff levels of between three and six percent. Under the FTA, the above-quota U.S. tariffs for dairy TRQs will remain unchanged from their current levels. (see GAIN Report #AS4016.) For Australian dairy exports to the United States that aren't governed by TRQs, the U.S. tariffs will be reduced to zero over a phase-in period of up to 18 years.

The United States consistently ranks in the top five export destinations for Australian cheese and casein.

Australia-Thailand FTA: Australia completed FTA negotiations with Thailand in October 2003, with the agreement to be implemented on January 1, 2005. Under the agreement, Thailand will immediately eliminate current tariffs on imports of Australian casein, infant formula and lactose; and phase out tariffs for butterfat, milk food, yogurt, dairy spreads and ice cream over five years. The Thai tariffs on cheese and butter will be eliminated over 20 years. (See GAIN Report #AS4016.)

Dairy takeover: New Zealand-based Fonterra, the world's largest dairy exporter, has launched a takeover bid for National Foods, Australia's largest fresh milk producer. Fonterra currently owns about 17 percent of National Foods. Meanwhile, the board of National Foods in a letter to shareholders (November 1, 2004) rejected the takeover bid on the basis that the offer was undervalued and did not account for the substantial strategic and synergy benefits that would result from the takeover.

National Foods recently suspended discussions with SPC Ardmona, an Australian canned fruit processor, subsequent to Fonterra's offer. According to media reports, the National Foods board continues to favour the merger with SPC Ardmona. Subsequently, Coca-Cola Amatil has launched a takeover bid for SPC Ardmona.

Industry Deregulation: The Australian Dairy Industry continues to adjust to regulatory reforms implemented in July 2000. To date, this remains the most expensive Australian agricultural reform package of modern times valued at \$A1.78 billion (see GAIN report #AS2038). Under this program, adjustment support is provided for structural adjustment, exit assistance and supplementary assistance measures. The Australian dairy industry now purports to be the only deregulated dairy industry in the world.



## Fluid Milk

### Production

Australia's fluid milk production in marketing year 2004/05 (July-June) is forecast at 10.5 million metric tons (MMT), down one percent from the previous year and in line with the most current figures available from ABARE. This production level would equate to approximately 10.2 billion liters of milk, using a liquid-weight conversion factor of 1.03. This is in line with fluid milk production figures reported by Dairy Australia (DA). Recent heavy rain in key dairy regions has improved the outlook for Australia's fluid milk production.

Fluid milk production for 2003/04 is estimated at 10.4 TMT, down from Post's previous estimate. This production level represents a 2.4 percent decline from the production figure for the previous year. A continuation of drought conditions up until the end of 2003/04, combined with reduced cattle numbers and sharply lower levels of irrigation water reserves, constrained production to below previous expectations.

### Exports

Australia's exports of fluid milk in 2004/05 are forecast at 85,000 MT, unchanged from the revised figure for previous year. Post has increased estimated fluid milk exports in 2003/04, to 85,000 MT, in line with DA figures.

Australia exports minimal amounts of drinking milk, which according to DA is equivalent to around 4.5 percent of Australian fresh milk consumption. Approximately 80 percent of Australia's fresh milk exports are destined for Asia, and about 75 percent of total exports consisting of UHT (long-life) products.

### Imports

Imports of fluid milk for 2004/05 are forecast at 2,000 MT, unchanged from the revised estimate for the previous year. Post estimates fluid milk imports at 2,000 MT in 2003/04, well below Post's previous figure, and in line with official Australian Bureau of Statistics (ABS) figures.

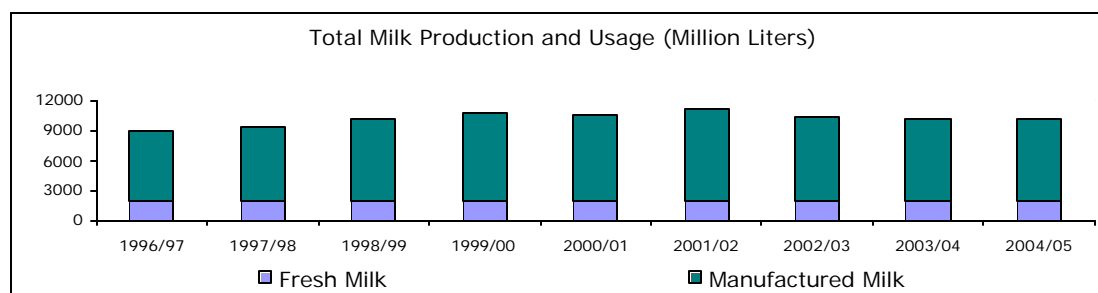
According to ABS statistics, dairy imports have historically made up less than one percent of total domestic consumption.

### Domestic Consumption

Fluid milk consumption in 2004/05 is forecast at 2,050 TMT, up 1.5 percent from the revised figure for the previous year. Historical figures show a slight increase in consumption over the past decade.

Post estimates fluid milk consumption in 2002/03 at 2,019 TMT, down slightly from the previous report. DA estimates milk consumption at 1,961 TMT in 2002/03.

Fluid milk produced in Australia is mostly used for manufacturing into dairy commodities and products. A relatively small proportion (around 20 percent) is consumed domestically as fresh milk. Official government statistics for fresh milk consumption have been unavailable since 1997/98.



Source: ABARE data.

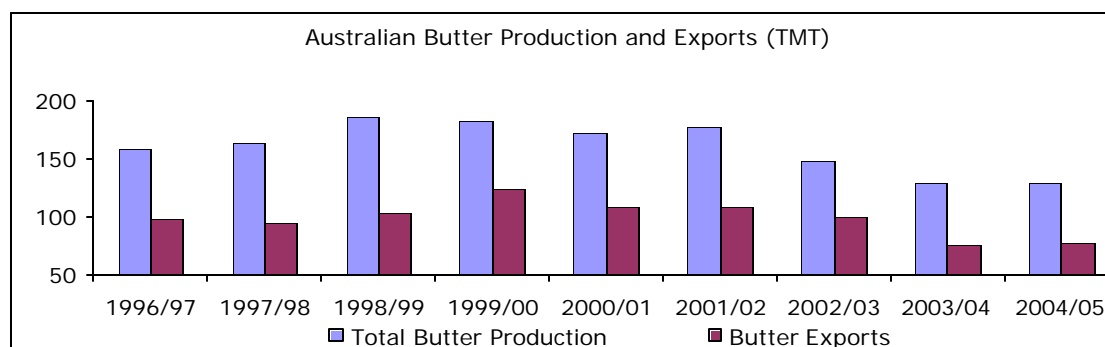
## Butter

### Production

Total butter production in 2003/04 is forecast at 133,000 MT, up only slightly from the revised estimate of 132,000 MT for the previous year. Lower milk production levels due to drought conditions constrained butter production in 2003/04 and 2004/05 to historically low levels. Post's estimate of 132,000 MT for 2003/04 is in line with DA data. Furthermore, changes in price relativities between butter and other commodities such as cheese have placed downward pressure on butter production.

Butter production in 2002/03 has been revised upwards to 163,000 MT, in line with DA estimates.

Post's figures for butter production also include anhydrous milk fat (AMF), or butter oil. Post uses a conversion factor of 0.805 to convert AMF figures into butter equivalent.



Source: ABARE data.

### Exports

Total exports of butter in 2004/05 are forecast at 85,000 MT, up only slightly on the revised estimate for the previous year. This slight increase is in line with the expected slight increase in butter production. Despite significant increases in world prices, a strong Australian dollar has not allowed the higher prices to be translated into increased incentives for butter manufacturing.

Butter exports for 2003/04 are estimated at 84,000 MT, down slightly from Post's previous report and well down from the revised figure for the previous year. This represents the lowest production level in over a decade.

Butter exports in 2002/03 have been revised upwards to 110,000 MT, in line with DA figures. This export level is more representative of the longer-term average according to ABARE's historical figures.

## Imports

Australia imports relatively small amounts of butter, usually from New Zealand. Butter imports are forecast at 10,000 MT in 2004/05. This import level is unchanged from the revised figure for the previous year. Post estimates butter imports in 2002/03 and 2003/04 at 7,000 MT and 9,000 MT, respectively, in line with official ABS statistics.

## Domestic Consumption

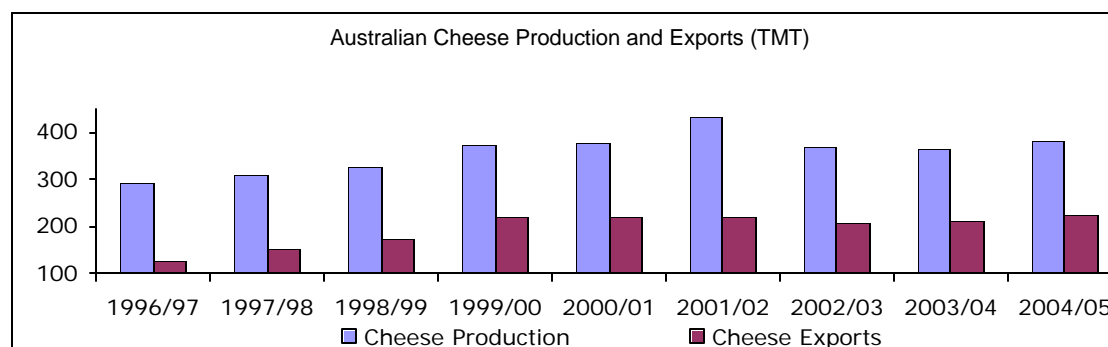
Official dairy consumption figures are unavailable. DA estimates domestic butter consumption at about 3.5 kilograms per capita per annum. Post forecasts total butter consumption at 57,000 MT in 2004/05, unchanged from the revised figure for the previous year. Industry sources suggest that butter consumption is increasing steadily over time.

## Cheese

### General

Historically, cheese production has been the largest manufactured dairy commodity. As a commodity, cheese commands the highest price and so creates the most value for the industry. Furthermore, recent changes in price relativities have favored the production of cheese over other dairy commodities.

Long-term trends show that around one-half of Australia's cheese production is exported and around half is consumed domestically. Cheddar is the most popular variety produced, accounting for around one-half of domestic cheese production.



Source: ABARE data.

### Production

Total cheese production in 2004/05 is forecast at 400,000 MT, 2.4 percent higher than the revised estimate for the previous year. Higher export prices for cheese in comparison with other dairy commodities is expected to attract the bulk of the increase in manufacturing milk supply. If achieved, this would represent the highest cheese production level since the record 431,000 MT produced in 2001/02, and would also represent a return to pre-drought production levels.

Cheese production in 2003/04 is estimated at 391,000 MT, up slightly from Post's previous estimate. This upward revision is consistent with a general preference for cheese production, as opposed to other dairy commodities.

### **Exports**

Total cheese exports for 2004/05 are forecast at 217,000 MT, an increase of around 2.4 percent from the revised estimate for the previous year. This export increase is in line with increases in cheese production. ABARE reports strong export performance in the key markets of Europe and Japan, despite a stronger Australian dollar.

Post estimates cheese exports in 2003/04 at 212,000 MT, up slightly from Post's previous report and in line with industry figures. This figure represents a decline from the relatively high cheese export levels experienced over the previous three years.

### **Imports**

Total cheese imports for 2004/05 are forecast at 50,000 MT, up from the 49,000 MT estimated for the previous year. According to DA reports, the vast majority of imported cheese is from New Zealand. DA also estimates that imported cheese accounts for about 25 percent of domestic sales.

### **Domestic Consumption**

Cheese consumption is forecast at 237,000 MT in 2004/05, unchanged from the revised figure for the previous year. It is expected that increased cheese production will be directed toward export markets in preference to the domestic market.

Official statistics for cheese consumption are unavailable. According to DA reports, average annual per capita consumption of cheese is estimated at around 11.7 kilograms per annum.

### **Skim Milk Powder**

#### **General**

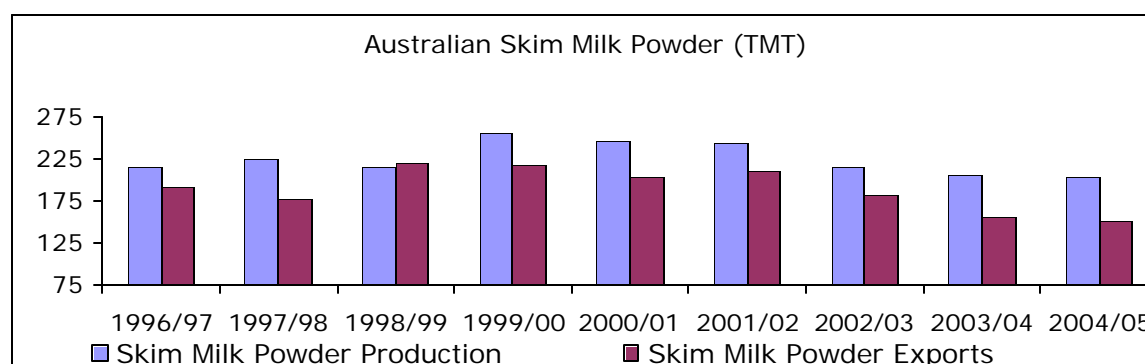
The majority of Australia's skim milk powder (SMP) is exported, with a smaller proportion consumed domestically. Only a small proportion of domestic sales are sold through retail outlets, with the vast majority destined for the food-processing sector.

SMP figures include small amounts of butter milk powder (BMP).

#### **Production**

Total SMP production for 2004/05 is forecast at 199,000 MT, unchanged from the revised estimate for the previous year. Despite recent strong price increases, any increase in milk production is expected to be directed towards cheese production, which is currently commanding higher returns.

SMP production in 2003/04 is estimated at 199,000 MT, up significantly from Post's previous estimate. DA data for the full 2003/04 year do not suggest any significant decline, which was indicated by partial-year data and reported by Post in the previous dairy report.



Source: ABARE data (excludes butter milk powder).

## Exports

Total SMP exports are forecast to decline slightly in 2004/05 to 170,000 MT, in line with the SMP production forecast showing production relatively unchanged over this period.

Exports in 2003/04 are estimated at 171,000 MT, up significantly from Post's previous estimate. Higher than expected production levels significantly increased SMP available for export.

## Imports

SMP imports are forecast at 2,000 MT in 2004/05, unchanged from the 2,000 MT imported in the previous year.

## Domestic Consumption

Total domestic SMP consumption for 2004/05 is forecast at 34,000 MT, down slightly from the estimate for the previous year. Official statistics for SMP consumption are unavailable. Post derives consumption figures using production and net exports.

## Whole Milk Powder

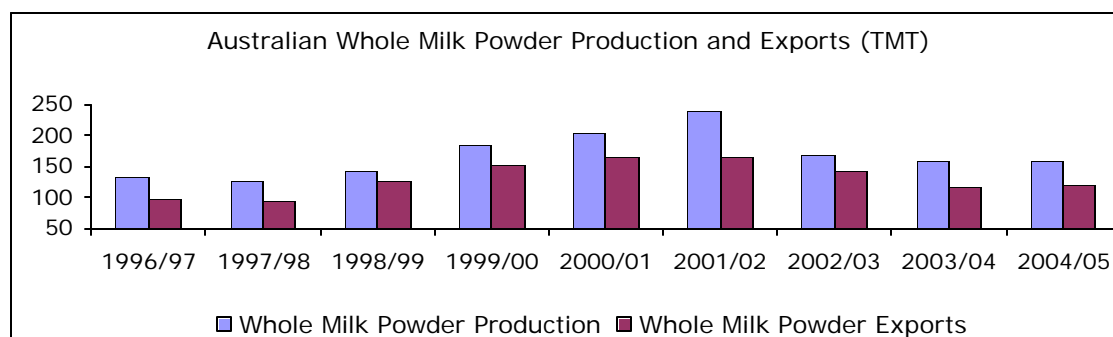
### General

Production of whole milk powder (WMP) has expanded rapidly over the past decade along with improvements in manufacturing technology. According to industry sources, production growth of WMP has surpassed that of SMP over the past decade. As a result, exports of WMP have grown proportionally to that for SMP.

### Production

WMP production in 2004/05 is forecast at 187,000 MT, unchanged from the revised estimate for the previous year. Sources anticipate little change in the quantities of manufacturing milk supply used for WMP production.

WMP production in 2003/04 is estimated at 187,000 MT, up significantly from the forecast provided in Post's previous report. This revised 2003/04 production figure is in line with recently released DA statistics.



Source: ABARE data.

## Exports

WMP exports in 2004/05 are forecast at 173,000 MT, unchanged from the revised estimate for the previous year.

Total WMP exports in 2003/04 are estimated at 173,000 MT, up significantly from Post's previous forecast. Year-to-date data used in the previous report suggested a large year-on-year decline, which is not reflected in the full-year data.

## Imports

WMP imports in 2003/04 are forecast at 11,000 MT, significantly higher than the revised estimate of 6,000 MT that was imported in the previous year. Despite this rise in exports, the 2003/04 export level is roughly in line with the longer-term average of WMP imports.

## Domestic Consumption

Total WMP domestic consumption is forecast at 25,000 MT in 2003/04. Official consumption figures are unavailable for WMP. Post uses a consumption figure that is derived from production and net exports. Post anticipates that the stronger Australian dollar will constrain exports and increase the availability of WMP for domestic consumption.

Domestic WMP consumption in 2002/03 is estimated at 20,000 MT, lower than the projection contained in Post's previous report.